

DISCLAIMER

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Sales Prospectus for

THE BERKELEY WATER COMPANY



Introduction

Berkeley Water Company is a privately held public utility franchised to serve water customers in the northern section of Berkeley Township, Ocean County, New Jersey. Currently in receivership, Berkeley Water initially began the sale of water on July 1, 1959. Presently, Berkeley Water services 3,998 residential and commercial customers. The Company pumps approximately 280 million gallons per year from its three wells, all diverted from the Kirkwood-Cohansey Aquifer. The Company maintains two water towers, a 200,000-gallon tower off Gladney Avenue, and a 1,500,000-gallon tower in close proximity to the radio station WOBN antenna off Route 9. Both towers are located on property

owned by Berkeley Water with access by way of easements to Route 9. Distribution occurs through approximately 225,000 feet of mains, 97% of which are located on public ways. All customers are metered, with all newly installed meters being of the touch-read variety. Roughly over one third of the meters in service now are of the touch-read variety. At a tariff rate of \$2.95 per thousand gallons, Berkeley Water is one of the most cost competitive water purveyors in the area. Despite this relatively inexpensive rate, Berkeley Water grossed over \$1,400,000.00 in sales in the tax year 2003. Currently employing a general manager, a T-3/W-3 licensed operator, two additional operators with satisfactory credentials to fill the shoes of a licensed operator (another T-3/W-3 and a T-2/W-2), and another utility person with T-1/W-1 qualifications, and three and one half additional office support staff, Berkeley Water Company efficiently provides excellent service to its customers, evidenced by a track record over the last decade of few to no complaints to the B.P.U. As a small water utility of approximately 4,000 customers, Berkeley Water presents a unique investment opportunity as a stand-alone utility for an experienced water purveyor.

Brief History

In 1959, Mr. James Johnson, a local Ocean County businessman, found the need to provide water to a shopping center he was constructing. Realizing a potential new business enterprise, Mr. Johnson sought and received approvals to operate a water franchise from Berkeley Township and the Public Utilities Commission. Ownership in complimentary business enterprises such as asphalt companies and pipe companies facilitated Mr. Johnson's building and expansion of Berkeley Water Company. After approximately a decade in the water industry, Mr. Johnson purchased the assets of neighboring fledgling water companies and expanded the water distribution system of his company in Berkeley Township.

In the late 1970's, however, customers (and ultimately the Board of Public Utilities) brought various court actions against Mr. Johnson's family-owned business due to issues concerning improper management and allegations of an inability to provide safe and adequate water to its customers. In 1980, the Honorable Henry H. Wiley, J.S.C., appointed Edward Oles, Esq. as custodial receiver after hearings concerning mismanagement of the Company. Mr. Oles operated the Company from 1980 until 1992 when he was appointed to the Superior Court bench. During that time, Mr. Oles successfully obtained rate increases for the water company and commenced constructions of a new well, as well as the 1,500,000-gallon tower. In 1992, Mr. Oles' law partner, former Assemblyman John Paul Doyle, was

named to succeed Mr. Oles as receiver. Mr. Doyle continued the stewardship of the water company as it constructed another new well and completed significant financial arrangements with Lifetime Homes, a residential developer with substantial holdings in Berkeley Water's franchise area. In December of 1996, Mr. Doyle was succeeded by the current receiver, Harold N. Hensel, Esq.

When Mr. Hensel commenced his time as receiver, the Water Company was involved in litigation with Mr. Johnson at the Appellate Division concerning settlement of litigation with Lifetime Homes and financial arrangements concerning construction of the tower and the newest well. Ultimately, that litigation concluded but the Company was faced with a new challenge. Low levels of benzene were detected at Well #4. The well was immediately taken out of service and remained so for over a year while construction of an air stripper was completed. Well #4 has been in service now for the last two years with no readings above the minimum detection level for benzene occurring post air stripper testing. Additionally, in a section of Berkeley Township serviced by the Water Company known as Bel-Air Park, groundwater supplying private wells tested positive for M.T.B.E.'s, a gasoline additive believed to be leaking from a neighboring gas station. Various governmental authorities requested Berkeley Water Company to permit hook-ups of approximately 120 homes in that area as private wells were sealed due to this contamination issue.

Berkeley Water now serves approximately 4,000 customers. Its three wells are permitted to pump 1,825 gallons per minutes, although probably possess the wherewithal to pump 2,300 gallons per minute if permitted. At present, Berkeley Water possesses diversionary rights only allowing 38 million gallons per month, or a total of 280 million gallons per year. Currently an application to increase diversionary rights has been pending with the D.E.P. for approximately one year. The requested increase is to 355 million gallons annually.

With Mr. Johnson's untimely death, various contentious litigation concluded as all interested parties – The Board of Public Utilities, the Johnson heirs, and the receiver – worked toward the common goal of preparing the company's assets for sale to a third party. Thus, this prospectus is submitted to familiarize the reader with Berkeley Water Company.

Source of Supply

Berkeley Water utilizes three wells, enumerated Well #3, Well #4 and Well #5, to draw water from the Kirkwood-Cohansey Aquifer. Pursuant to Water Allocation Permit #5230 as issued by the D.E.P., the three wells are permitted to draw 1,825 gallons per minute from the aquifer. The monthly

diversionary rights are 38,000,000 gallons per month with total annual diversionary right of 280,000,000 gallons per year. The Company maintains daily pumping figures for each of the three wells and also possesses equipment necessary to determine aquifer static water level at all times. The Company complies with the requirement that static water level and total head measurements for each well be recorded monthly and be reported quarterly to the D.E.P.



Well # 5



Well # 3



Well # 4

Berkeley Water Company is in full compliance with all D.E.P. regulations concerning water testing at its wellheads. Additionally, the Company maintains numerous water test stations throughout the system. Water is analyzed by a licensed laboratory, Henderson Labs. Both water towers have, within the last five (5) years, been inspected by divers for structural stability as part of a routine maintenance program utilized by the company. Moreover, Wells #3 and #4 have been "cameraed," again as part of routine maintenance. No extraordinary repairs have been necessitated by these inspections of the facilities. Videotape of the inspections are maintained at the Water Company offices. Written summations of the inspections are available.

Staff

Berkeley Water Company employs an individual in an Executive Director/General Manager capacity to oversee the day-to-day operations of the Water Company. Hired nearly twenty (20) years ago, Maureen Bier has risen to this position, having initially been hired by Mr. Oles to a bookkeeper/office staff position. Previously employed in the banking industry, Ms. Bier acclimated herself to the ways of water company management through the tutelage of both Mr. Oles and Mr. Doyle. Her personal knowledge and experience concerning the Water Company are invaluable assets vital to its continued success.

Berkeley Water Company's size requires that it employ at T-2 W-2 licensed operator. Ronald Wund currently serves as the licensed operator, having achieved T-3 and W-3 qualifications. Before joining Berkeley Water, Mr. Wund worked for several years with Manhattan Water Meter Company in North Jersey. Joseph Meyer, second in command of operations, is equally talented and qualified. He too has received T-3 and W-3 status from the D.E.P. He studied civil engineering for 2½ years at the New Jersey Institute of Technology and worked in construction prior to his commencement of employment with Berkeley Water Company. Michael Ricciardella, another employee with the Water Company has achieved the status of T-2, W-2 qualifications. All these individuals thus possess the D.E.P. requirements to sign off as the licensed operator of the Berkeley Water Company. Because of their years of longstanding service to the Water Company and their qualifications, skills and experience, it is anticipated that any sale would contemplate a two-year period of continued employment of these individuals.

The Water Company also employs a utility man who has recently qualified as a T-1, W-1 operator. In addition, the office is staffed by three full time and one part-time office workers/clerks responsible for computer data entry, billing, customer requests and relations, and banking deposits, among other various office duties. The office is open from 8:00 a.m. until 4:00 p.m. and is located within the franchise area serviced. During off-duty time, an answering service fields all telephonic communications to the Water Company and relays emergencies to the utility operator on call or the operations managers. Finally, it should be noted that the wellheads and towers are telephonically connected by way of a lease line; the electronics at the sites permit the operators to phone in and obtain all information related to the performance of the wells, tower levels and functioning of the treatment processes. Each utility operator or utility worker is provided a pick-up truck or van for his use in the

course of employment. Communications between the workers is achieved through use of walkie talkies/cellular telephone equipment.

Water Quality

As above referenced, no surface water is utilized by the Berkeley Water Company. The three wellheads draw water from the Kirkwood-Cohansey Aquifer at depths in excess of 200 feet below the surface. Commonly known as a semi-confined aquifer, the Kirkwood-Cohansey is somewhat notorious for high iron content. Other than concern for iron, the water quality is generally perceived as good with little treatment necessary. Because of the iron content, which borders at the .6 parts per million level, the water treatment process utilizes of C-5 polyphosphate to sequester iron (and aluminum) molecules. This sequestration prevents the iron molecule from oxidizing and causing the discoloration in water, but does not remove the molecule itself. In addition to the C-5 treatment, sodium hypochlorite (chlorine) is used as a disinfectant (in liquid form) and lime slurry is used for ph control. No other chemicals are added to the water drawn from any of the Berkeley Water Company wells.



Air Stripper at Well # 4

At Well #4, due to the discovery of trace amount of benzene in the water a few years back, an air stripper was constructed and put into service. Built by Layne-Christensen, the stripper removes over 95% of the benzene that may exist in the water supply. Since its inception, the air stripper has continuously removed benzene below minimum detection levels as analyzed by Henderson Labs, our independent laboratory.

Distribution



1.5 Million Gallon Water Tower

Wells #3 and #5 are located on a parcel of land in the southern part of Berkeley Township off Route 9. At that facility is additionally located the 1,500,000 gallon water tower. The water pumped from Wells #3 and #5 can be utilized to fill the tower or feed directly into the distribution system. In addition, a booster pump is located at the well housing of Well #3 to increase capacity during peak summer usage times.



Wellhouse for Well # 4



Wellhouse for Well #3 & Booster Pump

Well #4 is located off Gladney Avenue and Route 9 within the northern section of Berkeley Township. At that site are the 200,000-gallon spherical water tower and the aforementioned air stripper. Water is pumped from the aquifer through the air stripper column into a day tank or holding tank located in the ground below the stripper. From there, the water is pumped through treatment facilities and then either into the tower or into the distribution system.



Well #4, Spherical Tower, & Air Stripper

The mains which comprise the distribution system vary in size and makeup due to the number of years the water company has been in existence. At the end of 2003, the Company maintained 26,500 feet of 12 inch transite pipe, 9,200 feet of 10 inch transite, 21,300 feet of 8 inch transite, 30,525 feet of 8 inch PVC, 2,500 feet of 8 inch ductal iron pipe, 47,645 feet of 6 inch PVC and 112,045 feet of 6 inch transite pipe.

Installed along the nearly 48 miles of water main owned by Berkeley Water are 248 fire hydrants. The great majority (175) are 5¼" Mueller hydrants. In conjunction with system maintenance, in recent years the water company has embarked on a valve maintenance program in an effort to locate and catalog all run valves in the system. When necessitated by main breaks, run valves are installed, along with hydrants, at appropriate intervals. Moreover, the company maintains a semi-annual hydrant flushing program. Equally important is the fact that water company representatives are in attendance at local fires where hydrants may be utilized by the volunteer fire company. This is done to maintain the integrity of the system, as well as the appropriate water levels at towers, which are impacted during fire fighting operations.

As to repair responsibility, the meters are the responsibility of the water company. They are periodically tested and replaced as necessary by water company personnel. Meters are tested at an individual test station located on Sherman Avenue in Berkeley Township. The real estate on Sherman and the two buildings are owned by the water company. This facility previously housed a wellhead and an old air stripper from many years ago. (The air stripper has been removed and the well head capped off.). At present, the structures house a four-meter test bench and storage facilities for the meter inventory, as well as other equipment and supplies.

The customer is responsible for the connection from the meter to the house. In addition, if the meter is located in a pit near the curb stop, the customer is responsible for maintenance of that meter pit by utilization of salt hay in the wintertime to prevent freeze-ups.

The Berkeley Water Company's distribution system is generally located in the northern section of Berkeley Township. Wells #3 and #5, however, are located in the southern portion of Berkeley. As a result, Berkeley Water maintains a water main in the roadbed of State of Highway #9, from almost the southern terminus of Route #9 in Berkeley Township to its northern terminus in Berkeley Township. Along this route, Berkeley Water Company maintains interconnections with three different water purveyors. The most significant water connection is one maintained with the Berkeley Township Municipal Utilities Authority. This interconnection is located at Route #9 and Butler Boulevard. Currently an interconnection meter is set at the site for flow from the M.U.A. to Berkeley Water in the event of an emergency. Initially the meter was set to flow from Berkeley Water to the M.U.A. but as their capacity increased and their interconnection with the Lacey M.U.A. was finalized, it was felt that Berkeley Water would more likely look to the Berkeley M.U.A. to supply water than visa versa. Further north, Berkeley Water interconnects with both Ocean Gate Borough's water distribution system and Pine Beach Borough's water distribution system. Both of these are smaller municipally run water utilities. At those sites it is felt that Berkeley Water would be the supplier in the event of an emergency. Nonetheless, three interconnection agreements exist between these various entities and the Berkeley Water Company.

In recent years, Berkeley Water has attempted to complete a system map or distribution map of all the existing mains, valves, services, hydrants, and interconnections. Although not a CAD based system, a working distribution map is currently utilized by all field personnel of Berkeley Water. The Company utilized tax maps and recorded information concerning the mains at every break, wet tap, main extension or hydrant replacement. The result is a working map, which provides sufficient information to locate the pipes. Translating these maps into a CAD program is the next step in the continued updating process employed by water company personnel.

Customer Service and Revenue

Berkeley Water Company currently services 3,998 customers. At the end of the year 2003, there were 1,483 five-eighths inch meters, 1,981 three-quarter inch meters, 803 one inch meters, 44 one and one-half inch meters, 41 two inch meters, 3 three inch meters, and 1 six inch meter for a total of 4,356

meters either in service or in stock. As above referenced, these meters are periodically changed and tested by Berkeley Water Company personnel.

The total system delivery figures, when juxtaposed against the total metered consumption, results in an unaccounted for water percentage of 9.4% which is inclusive of fire hydrant use.

Customers are billed, pursuant to the Berkeley Water's tariff, based on the size of the service to the customer. In addition to the basic charge, customers are billed or usage at \$2.95 per thousand gallons of water used. All water usage is metered to each individual customer and billings are done on a quarterly basis. No estimated billing is used; even contractors utilizing hydrants must pay for a hydrant meter and the water used in any construction endeavors in Berkeley Water's service area.

Total receipts from water sales in 2003 totaled \$1,428,600.00 with an additional \$16,000.00 of income attributable to tower rental, interest and dividends.

Financial Liabilities

Berkeley Water Company has utilized an industry-accepted practice of refundable deposit agreements as a means of extending mains and increasing the capital of the corporation. Depending on whether a main extension is new construction or extensions over existing roads, Berkeley Water will generally require a developer either to deposit the cost of the main extension with the water company and Berkeley Water thereafter utilizes these funds to pay its own contractors for pipe work. Alternatively, if contractors wish to extend the main on their own, they must pay inspection fees for a water company employee to be on site during the course of construction. In either event, a formula is utilized wherein Berkeley Water repays the amount of construction that has been advanced by the contractor back at a rate of two and one-half or five times 25% of the first year's revenue received from the new services connected to that main extension. In addition to these refundable deposit agreements, Berkeley Water entered into various financial agreements with Lifetime Homes. Lifetime advanced monies to Berkeley Water for construction of Wells #4 and #5, and the 1,500,000-gallon water tower. In addition to normal RDA's, Lifetime and Berkeley Water entered into a financing arrangement wherein the debt for these improvements (as approved by the Board of Public Utilities) is being repaid to Lifetime Homes. Additionally there are two demand notes payable to shareholder related entities. Interest payments are current on these demand notes and the notes are currently are non-executable based on the court orders entered during the creation and the continuation of the receivership. Upon sale of the assets of Berkeley Water, it is anticipated that the long-term debts to Lifetime Homes and various

contractors who made contributions in aid of construction would become the continued obligation of the purchaser, while debts to shareholder related entities would be satisfied at the time of sale. Other than those long-term debts, there are two minor vehicle loans to GMAC for the purpose of pick-up trucks utilized by employees. For specifics concerning debt, the reader's attention is respectfully directed to the water company's annual report on file with the Board of Public Utilities.

Physical Assets of Berkeley Water Company

As referenced throughout, the Berkeley Water Company owns two water towers, three in-service wells, the land and structures located at each of these two facilities, and a third property held in fee simple absolute fronting on Sherman Avenue consisting of two small former well houses presently used as a meter test station.



Views of Sherman Avenue Meter Test Site

The Company leases office space in a storefront on Route #9 in Berkeley Township, conveniently located for use by customers for bill payment and service sign-ups. The Company presently owns four pick-up trucks, one van, and a variety of equipment utilized by its employees. The office is computerized and networked, although at present the touch read system is not interfaced with the computer billing system. All the physical facilities are adequately protected by burglar alarm systems tied to a central monitoring station. Moreover, all the wellheads and treatment facilities are protected in accordance with B.P.U. requirements as upgraded following the 9/11 terrorist attacks. The local police department routinely checks on the water company facilities as part of its regular patrol duties.

Although Berkeley Water maintains a number of vehicles, it does not perform its own pipe installation or main break repair work. Berkeley Water does not own a backhoe, dump truck, front-end loader or any other equipment necessary for main extension or main break repairs. For a number of years, Berkeley Water has utilized the services of Ocean Pipe Works, Inc., a Bayville-based water and sewer contractor. In the past, larger entities were utilized for main extensions, but Ocean Pipe Works' convenient location in Berkeley Township, familiarity with the system, working relationship with the employees, and reasonable prices have resulted in Ocean Pipe Works maintaining a first-choice position concerning emergency repairs and main extensions.

Fiscally, the Company maintains five separate bank accounts, one deemed to be a working account, one separate account for customer security deposits, one account for anticipated refundable deposit agreement reimbursements, one account for Lifetime reimbursements and a payroll account. Specifics concerning finances in the form of income tax returns and annual reports will be made available to serious bidders following Board of Public Utilities guidelines during the due diligence period.

Conclusion

Although being in receivership for over twenty years, the employees of Berkeley Water Company have worked hard to mold it into a respected first class water purveyor. Working with limited resources due to financial constraints, the water company has continued to improve and upgrade its facilities while continuing to provide safe and adequate water supply to its customers. Berkeley Water is indeed a smart and valuable asset for an astute water purveyor.